

BUSINESS REVIEW AND OUTLOOK

Business Review

The Group's consolidated turnover in 2000 was HK\$1,786 million, compared with HK\$1,876 million in 1999. Loss attributable to shareholders was HK\$86 million in 2000. The Group continued to focus on the development of its core brands, distribution coverage, and higher productivity to maintain its long-term competitive advantage in this challenging market.

During the year, although we experienced a severe price competition in the retail market, our branded business continued to show a positive volume growth of 12% from 1999. We continued to establish a higher market share and stronger distribution coverage.

Our operations also continued to deliver higher productivity and lower costs. During the year, our operating margin was reduced due to an unfavorable price effect from aluminum. However, the selling, distribution and administrative expenses were reduced significantly by 16% in 2000.

Other operating expenses for the year also included an unexpected doubtful debt of approximately HK\$14 million. One of our customers in the Packaging Division suffered from liquidity problem. The Board decided to take a prudent approach to make provision for this account.

The Group reported a provision for contingent loss in respect of wheat quota during the year. The potential loss referred to an excess import of wheat following a change of PRC Government policy in 1995. The Group is currently negotiating with the relevant government authorities concerning the resolution of the issue and a provision in this regard of approximately HK\$24 million was made in the consolidated income statement.

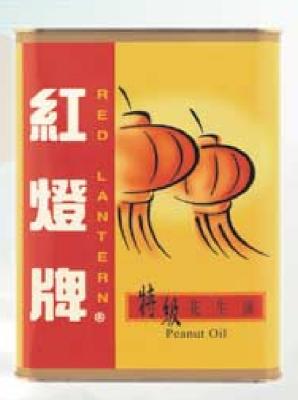
The Group also made a provision of HK\$56 million against the carrying value of Tai Po Building and related furniture and fittings according to the terms of the lease agreement between the Company and The Hong Kong Industrial Estates Corporation.

During the year, the Group decided to reduce the scale of our business in bulk oil trading due to unfavorable market conditions. The total sales for 2000 and 1999 were HK\$35 million and HK\$110 million, respectively.

The Group's development in management information system continued to show improvement. It enables the management to make timely reviews and business decisions based on more structured and faster reports.







Edible Oil



Asia Gold Super Brand Award

by Reader's Digest in 2000, Lam Soon "Knife Brand" was awarded the Asia Gold Super Brand Award.

Disposal of Associates

During the year, the Group has successfully realised its investments in CL International Group, which engages in computers business, for a cash consideration of HK\$16 million.

Change of Shareholders' Structure

On 20th December, 2000, Lam Soon Cannery Private Limited, a substantial shareholder of the Company, disposed 29,444,411 ordinary shares, representing about 12.15% of the issued share capital of the Company to Euro-Asia Food Limited, a wholly owned subsidiary of Hap Seng Consolidated Berhad at a consideration of Singapore Dollars 10,469,124.

Hap Seng Consolidated Berhad is a public company listed on the Kuala Lumpur Stock Exchange with core businesses in Plantations & Processing, Food, Nutrition and Beverage and an investment arm with substantial interests in properties, insurance, investment holdings and cash investments.

Liquidity and Financial Resources

The Group generally finances its businesses with internally generated cash flows and banking facilities at different geographical markets locally as far as practicable. Financing and cash management activities of the Group are coordinated at the Corporate level.

The debt maturity profile of the Group at 31st December, 2000 is analysed as follows:

	As at 31st December,	
	2000	1999
	HK\$'000	HK\$'000
Repayable within one year	527,823	426,778
Repayable after 1 year, but within 2 years	203,533	124,768
Repayable after 2 years, but within 5 years	730	202,747
Total	732,086	754,293





Delergeni



Hong Kong Top Ten Brands

AXE Brand detergent was elected as one of the winners in 2000 by the Chinese Manufacturers' Association of Hong Kong.



As at 31st December, 2000, the Group had available aggregate banking facilities of HK\$1,050 million, of which HK\$303 million has not been utilized. As the cash deposits and bank balances of the Group amounted to HK\$498 million together with the net working capital of total amount of HK\$214 million, the management believes that the Group has sufficient financial resources to discharge its debts and to finance its operations and capital expenditure.

The Group managed to maintain a healthy balance sheet with its total assets of HK\$2,622 million (1999: HK\$2,687 million). The Group's gearing ratio was improved from 39% as at 31st December, 1999 to 29% as at 31st December, 2000, which was calculated based on the net borrowings (net of cash deposits and bank balances) of HK\$302 million (1999: HK\$434 million) and the shareholders' funds of HK\$1,033 million (1999: HK\$1,116 million). Also, the working capital (net of cash) to sales improved from 17% in 1999 to 12% in 2000.

Over 85% of the Group's cash, deposits and bank balances is in either Hong Kong Dollars or US Dollars. The exposure to exchange fluctuation is minimal. As at 31st December, 2000, the Group had entered into an interest rate swap agreement of notional principal amount of US\$5 million (1999: US\$5 million) for hedging purposes.

Employee, Training and Remuneration Policy

The Group has approximately 1,760 employees as at 31st December, 2000. Employees are remunerated according to nature of the job and market trend, with built-in merit component incorporated in the annual increment to reward and motivate individual performance. During the year, the Group continued to remain committed to its staff training and development programme. Total staff costs for the year ended 31st December, 2000 was HK\$159 million (1999: HK\$165 million).

Pursuant to the share option scheme ("Scheme") approved by the shareholders on 26th May, 2000, the directors of the Company may invite employees and directors (other than non-executive directors) of the Company or any of its subsidiaries from time to time to take up options to subscribe for shares of HK\$1 each in the capital of the Company. The subscription price and the exercisable period is determined in accordance with prescribed formula and terms. No option was granted under the Scheme during the year.

Charges on Group Assets

At 31st December, 2000, the amount of the Group's assets pledged as security for liabilities was HK\$890 million (1999: HK\$1,050 million).